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Lindley & Associates LLC newsletter is written by Martha Lindley CPA, providing timely articles for nonprofits. As a national speaker on nonprofit issues and Uniform Guidance compliance, she personally writes and provides this quarterly newsletter to over 400 nonprofits as a contribution to our nonprofit community. If you would like to receive future editions, please contact us. There is no charge.

We specialize in not for profit organizations and government funded entities providing audit, reviews and tax preparation services. We are committed to those organizations that provide services to our community.

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The information in this newsletter is necessarily brief. No final conclusions on these topics should be drawn without further review and consultation. For additional information, PLEASE CONTACT US.

**NEW FASB'S BREEZE IN**

By Martha Lindley CPA

Why changes? Financial statements are to communicate financial status information and with no updates in NFP reporting since the early 1990's, it does make sense. "What most people want to know is what resources were received during the period, what resources were made available during the period, and how did you use all those resources", say Lee Klump, a FASB representative.

Effective for years beginning after December 15, 2017, and early adoption permitted if ALL new requirements are adopted at the same time. Presentation will be retrospective, so prior year statements will be restated when

implemented, if comparative statements are shown.

The five key areas spell the acronym CLONE: (note: face of the financial statements = FOS, and disclosure in the footnotes to the financial statements = FN)

C – Cash Flow, Statement of. Essentially, use the direct method (the direct method shows the amount of cash received from contributions, fees for service, etc. and cash spent for expenditures, employees, etc. to equal the net cash provided (used) from operating activities.

L – Liquidity: 1) FN of how liquid resources (cash or cash equivalents) will be available to meet operating

cash needs for the following year and 2) FOS or FN disclosure of the availability of liquid assets to meet those operating needs, i.e. not restricted or board designated.

O – Operating measure: Board designations and similar actions will be FOS (the use of board designations can be used to manipulate liquidity). The remaining issue in this area – to be decided later – is the proposal that every nonprofit report two operating measures, which are not self elected, and are standard across the industry.

N – Net Assets: Currently Unrestricted, Temporarily restricted and Permanently restricted

*Continued page 2 column 2*

**WORKPLACE INCIVILITY**

By Martha Lindley CPA

"70 percent of Americans believe incivility has reached crisis proportions. With Americans encountering incivility more than twice a day on average (2.4 times per day), and 43 percent expecting to experience incivility in the next 24 hours," *Civility in America, A Nationwide Survey.*

Such behavior reflects on all levels of the organization and the quality of the organization.

Are you an offender (from the Thunderbird School of Global Mgt):

- Taking credit for others' efforts
- Passing blame for your own mistakes
- Checking e-mail or texting during a meeting
- Sending bad news through e-mail so you don't have to face the recipient
- Talking down to others
- Not listening
- Spreading rumors about colleagues

- Setting others up for failure
- Not saying "please" or "thank you"
- Showing up late or leaving a meeting early with no explanation
- Belittling others' efforts
- Leaving snippy voice mail or e-mail messages
- Forwarding others' e-mail to make them look bad
- Making demeaning or derogatory remarks to someone or respond to e-mail
- Leaving a mess for others to clean upon or showing little interest in others.

## “UNLICENSED” CPA CAUSES HAVOC

An unlicensed accountant was recently caught preparing review reports and tax returns for a local Seattle non-profit, Seattle Housing and Resource Effort (SHARE). Technically, there is no term as unlicensed accountant, as accountants are not required to be licensed. The accountant was holding himself out to be a CPA, which is illegal. The Seattle City Attorney Office is considering possible charges against the NFP, as well as the accountant.

A quick search of Guidestar.com for the SHARE tax return shows the preparer to be an unreadable signature followed by “CPA”. Of course charges could be brought against such a person.

On the SHARE website, they explain that others have audited their books and records, which should suffice. Just a word of caution, program reviews by funders are not audits and are not independent of the organization.

To verify the license of a CPA and a license of the firm the person works for, visit: [www.CPAboard.wa.gov](http://www.CPAboard.wa.gov).

## FASB’S BREEZE IN CONT PG 1

restricted. This will change to “net assets without donor restrictions” and “net assets with donor restrictions”. The restrictions will be detailed FOS or FN.

Board designated net assets will be detailed on FOS or FN.

Underwater endowments, rather than the loss report in unrestricted net assets, will be reported in “donor assets with restrictions”.

**E – Expenses** (see following article on Allocation of Functional Expenses) 1) Investment return to be reported net of expenses 2) FN will provide method of the allocation process between program and support classification (such a salaries, square footage, etc) 3) Statement of Functional Expenses will be required for all nonprofits. Such reporting is by function (program, support and fundraising) and by natural classification (salaries, benefits, rent, etc)

### GUIDESTAR HAS NEW PRODUCT

Guidestar is selling a new financial tool - reasonably priced - that may be of interest.

Go to Guidestar.com, select “Products”, select “Financial Scan”. The product “Nonprofit Express Pass” is \$250, or “GuideStar Premium Pay as You Go” is \$125. Phone calls to their help center were not useful regarding the difference in products.

**GuideStar states the 5 year comparative graphs:**

**Present a clear picture of your financial condition and future resource needs** Your financial health dashboard identifies the indicators that are critical to your organization's long-term stability and effectiveness, analyzing them for up to five years. Thirteen charts and graphs, accompanied by an educational guide, let you examine more deeply and interpret these metrics and trends.

**Benchmark your organization's financial condition against your peers** Select up to five peer organizations and generate a peer comparison dashboard, **or (New!)** benchmark a nonprofit against medians or averages for an entire peer group that you create. Reveal the financial dynamics and structure of similar nonprofits.



*Ryan Kauzlarich, Audit Manager*

## NEW - EMPLOYEE OVERTIME PAY RULES

On May 18, 2016, President Obama and Secretary Perez announced the publication of the Department of Labor's final rule updating the overtime regulations, which will automatically extend overtime pay protections to over 4 million workers within the first year of implementation. The final rule will become effective on December 1, 2016, giving employers more than six months to prepare. The final rule does not make any changes to the duties test for executive, administrative and professional employees. The final rule is:

\* Raise the salary threshold indicating eligibility from \$455/week to \$913 (**\$47,476 per year**), ensuring protections to 4.2 million workers.

\* Automatically update the salary threshold every three years, based on wage growth over time, increasing predictability.

\* Strengthen overtime protections for salaried workers already entitled to overtime.

**Is there an exemption for non-profit organizations from either the FLSA or the Department's overtime regulations governing white collar workers?**

Neither the FLSA nor the Department's regulations provide an exemption from overtime requirements for non-profit organizations. Thus, the Final Rule may impact non-profit organizations having an annual dollar volume of **sales or business** done of at least \$500,000, or those with employees individually covered by the FLSA. Non-profit charitable organizations are not covered enterprises under the FLSA unless they engage in **ordinary commercial activities** that result in a sufficient amount of sales made or business done, such as operating a gift shop or providing veterinary services for a fee. However, employees of employers that are not covered by the FLSA on an enterprise basis may still be entitled to its protections if they are individually engaged in **interstate commerce**.

Source: Federal Dept of Labor website

## ALLOCATION OF FUNCTIONAL EXPENSES

By Martha Lindley CPA

The functional classifications are:

staff and the “story” to tell. The most common methods are:

The Statement of Functional Expenses has been required for voluntary health and welfare organizations since the 1990s. Other NFPs could report, many did not. Based on inquiry, NFPs did not want to share the management cost, also called overhead, portion of their expenses, apparently especially salaries and travel.

**Program** – Costs that result in the organization fulfilling its mission  
**Management and general** – Costs necessary for the operations of an organization that are not identifiable with a specific program, fundraising or membership activity  
**Fundraising** – Costs that involve seeking, soliciting or securing contributions

Salaries and Wages – allocate based on timesheets as a percentage of time spent on each function by employee and department

Employee Benefits and Payroll Taxes – allocate based on salaries and wages allocation

Page one of this newsletter describes this statement will now be required of all NFPs.

There are several methods used, usually depending on the size of the organizations, the skill of the accounting

Rent – allocate based on square footage of the organization by each function or department

Common problems/issues:  
The fundraising costs are higher than the contribution revenue – appears fundraising is unsuccessful – there should be a direct relationship. NFPs that report no management costs – which would mean all these functions are donated service, which would be unusual. No occupancy costs (insurance, depreciation, and internet) to management general when there is salary – are these folks sitting on the ceiling?

	Program #1	Program #2	Management & General	Fundraising	Total
Salaries and benefits	\$45,000	\$93,000	\$30,000	\$10,000	\$178,000
Rent and utilities	12,000	20,000	5,000	5,000	42,000
Printing and supplies	6,000	10,000	3,000	5,000	24,000
Depreciation	5,000	8,000	2,000	1,000	16,000
Total	\$68,000	\$131,000	\$40,000	\$21,000	\$260,000

■ = NATURE   ■ = FUNCTION